PSC-ED-FSA TISD

Moderator: Mark Gerhard
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Jamie Malone: Good afternoon. Welcome to the Department of Education's Webinar on the HEOA changes to the FFEL and Direct Loan Program. My name is Jamie Malone of the Department's Chicago Regional Office.

My co-presenter today is Linda Burkhardt of the Department's Seattle Regional Office. We thank you for joining us.

The Higher Education Opportunity Act or HEOA was enacted on August 14, 2008. The law reauthorizes the Higher Education Act of 1965 as amended. It makes changes to our Title IV federal student aid programs, authorizes new programs, and makes changes to other laws not administered by the Department's federal student aid.

Today we will talk about the changes made to FFEL and Direct Loans. On December 31, 2008, the Department published Dear Colleague Letter GEN-08-12. You can find this on our IFAP web site.

The letter is a summary of most of the provisions of the HEOA. Please use this Dear Colleague letter as a resource as you review the new statutory provision.

The Department has just concluded negotiating rule making sessions regarding the FFEL and Direct Loan Program. We will be posting proposed rules, or notices of proposed rulemaking, later this summer.

A comment period will follow the NPRM and final regulations will be issued by November 1, 2009. Many of the topics that we discuss today were included in the negotiated rulemaking discussion and will be regulated in the upcoming regulation.

Because of the large audience today, it is not possible to allow you to ask questions orally. However, you may type the questions and submit them electronically. In the toolbar at the top of your screen, you will see a Q & A symbol. Just click on that Q & A symbol, type your question and click on the word ask.

Department staff will do their best to answer questions electronically during this session. If time permits, we will read and answer some of the questions aloud at the end of the session.

Also on the toolbar at the top of your screen, on the right side, you will see a white icon that looks like a few sheets of paper. Click on that icon to download the handout for this presentation. Let's begin.

(Slide 2) The HEOA was signed into law on August 14, 2008. That date is referred to as the date of enactment. The law contains various effective dates. Some of those dates have already passed, others are in the future. Please be

aware that all schools participating in the Title IV program are required to implement the provision as of the stated effective date.

We understand that this requires implementation without federal regulation or Department guidance. During subsequent reviews of compliance, the Department will take into account any written guidance provided or the absence of such guidance.

We will begin by covering those provisions that apply to schools. *(Next Slide)* Added to the institution's Program Participation Agreement is a requirement that any school that participates in any of the Title IV loan programs have a Title IV Code of Conduct.

This is not limited to schools participating in the FFEL program. All schools that participate in Direct Loans, Perkins, and or FFEL, must comply with this requirement. The requirement extends to any officer, employee, or agent for the institution as well.

The law requires that a school develop, publish and enforce the code of conduct. Please note that the HEOA effective date of the code of conduct was August 14, 2008. If your school has not yet developed and posted a Code of Conduct, please take steps to meet with your school's management to discuss this.

Generally lenders and guarantee agencies have been subject to prohibited inducement provisions for some time, but those conditions applied only to the lender and the guarantee agency and their eligibility and operation. Adding this requirement to the school's contract with the Department imposes similar prohibition on the part of the institution and it's employees.

The goal of all of this is to ensure that students are not directed to particular lenders just because the school may benefit from the endorsement of any particular lender or lenders. *(Next Slide)*

On this slide and the next, you will see a list of the information that the law requires be in included in your Title IV Code of Conduct. Included in your handout for this presentation is a document that provides the HEOA definition of each of these terms. Please take a minute to look over these two slides. *(Slides 5 & 6)*

On the next slide, *(Slide 7)* we talk about the statutory provision, which provide new professional judgment authority for a financial aid administrator to award an unsubsidized Stafford Loan under the FFEL or Direct Loan Program to a dependent student when the parents refuse to complete the FAFSA.

The law requires that before exercising this discretion, the financial aid administrator document that the parent refuses to complete the parental sections of the FAFSA and has ended financial support of the student. Self-certification from the dependent student is not acceptable documentation.

In most instances, this requirement can be met by the financial aid administrator obtaining a signed and dated statement from the student's parents specifically stating that the parents have stopped providing financial support to the student, including the date when the financial support stopped, that they will not provide financial support in the future, and that they refuse to complete the parental section of the FAFSA.

There is no requirement that the parents provide a reason for ending financial support and refusing to complete the FAFSA. Providing financial support includes not only payment by the parents of educational costs, but also providing cash and other non-cash support to the student, such as room and board.

If the student informs the financial aid administrator that his or her parents will not provide the required verification statement, the financial aid administrator must obtain documentation from a third party like a teacher, counselor, clergy, or court. This third party's statement must document the student's relationship with his or her parents.

Before making a decision, the financial aid administrator may determine how the student intends to financially support him or herself without parental support, though this is not required. Note that in the case of separated or divorced parents, the refusal of the appropriate parent to complete the FAFSA does not enable the other parent to complete the FAFSA instead.

The definition of parent in the FAFSA instructions still applies in these cases. However, the non-FAFSA parent may borrow a PLUS loan for the student. Note that the denial of this parent's PLUS would not enable the student to receive the additional unsubsidized amount that is available to independent students. *(Next Slide)*

The law currently provides financial aid administrators the authority to do a dependency override. You may exercise professional judgment and treat a dependent student as independent, making the parental information unnecessary.

However, Departmental guidance says that the refusal of parents to complete a FAFSA, and or the fact that the student is self-supporting, are not valid reasons to perform a dependency override. This new authority under the HEOA, provides a new way to handle students in this situation.

The financial aid administrator may award unsubsidized FFEL or Direct Loan funds in these instances that do not warrant a dependency override. The dependent student would be eligible to receive only an unsubsidized loan. He or she would not be eligible for any other Title IV assistance.

Also, the student's parents would not be eligible to apply for a PLUS loan because the PLUS loan is financial support. It is important to note, that this is completely at the discretion of the financial aid administrator under professional judgment and it's not an entitlement to the student. *(Next Slide)*

It is also important to note that parental support comes in many forms. Parents or students may not recognize some types of assistance as comprising parental support. In those cases where the financial aid administrator exercises his professional judgment, it is recommended that the student and the parent be advised of the type of parental support that would not be permitted under this provision.

This can include such things as allowing the student to live at home. If the student claims to pay rent, it should be demonstrated that the rent paid is a reasonable rate according to that type of arrangement on a fair market basis.

It may also include some of the more obvious types of support such as paying for tuition fees, books and supplies or borrowing a PLUS loan on the student's behalf. If the parent owns a 529 or prepaid tuition plan, or Coverdell savings account for which the student is a beneficiary, that is parental support. Support also includes some not so obvious things, such as carrying the student on an auto insurance or health insurance policy. *(Next Slide)*

Nothing in this provision changes the requirement that a dependent student must establish his or her eligibility for Title IV assistance. Therefore the student must complete and submit a FAFSA that includes all of the required student information and certification.

For 2008-2009, the student must complete a paper FAFSA, as the electronic versions will not permit a dependent student to submit the application without parental data. Beginning with the 2009-10 FAFSA, these students may submit the paper FAFSA or use FAFSA on the Web.

Remember that FAFSA on the Web has been modified to allow dependent students to submit the application without parental data. The student must indicate that he or she cannot provide the parental information because of special circumstances.

Whether paper or electronic, the FAFSA will result in a rejected SAR or ISIR. As long as the data matches are successful and show no eligibility problems, you may use this information to award a student the unsubsidized Stafford.

There will be no EFC to apply to eligibility for any of the other Title IV programs. For all practical purposes this is similar to receiving an ISIR with an EFC of 99,999, which is the highest our system will reflect. A student with that EFC would have eligibility only for the unsubsidized Stafford loan, as the EFC is not used when that determination is made. *(Next Slide)*

Financial aid administrators were given this new professional judgment authority beginning on the date of enactment. That means that this was effective for any loan period that began on or after August 14, 2008 or includes that date.

This slide shows the annual loan limits for these students. These are maximum amounts that may be awarded in an academic year and the entire amount must be unsubsidized.

Remember that these students are not eligible to borrow the additional unsub available to dependent students whose parents were denied a PLUS loan.

For schools processing unsubsidized Direct Loans under this provision, COD will receive the rejected ISIR records from CPS and the unsubsidized loan records should be accepted. Revisions to COD were made in December 2008, and an electronic announcement was posted to IFAP on December 10, 2008. Dear Colleague letter GEN-08-12, provides a detailed explanation of this provision on pages 79 to 81. Now, I'm going to turn it over to Linda Burkhardt to continue. *(Next Slide)*

Linda Burkhardt: Thank you, Jamie. Requirements related to an institution's use of a preferred lender list have been added to the Program Participation Agreement or PPA. Schools that do enter into a preferred lender arrangement of any kind, must provide specific information to students and families.

Some of this was included in the November 2007 changes to the FFEL regulations, section 682.212, as prohibited transactions. But the HEOA did add additional conditions.

Schools that enter into these relationships, must compile, maintain and make available this list of lenders to students and their families. One new component is that the list must include lenders that make private education loans as well as FFEL lenders.

Any list must be updated at least annually and available in print or other medium, which corresponds to the current regulations. *(Next Slide)*

Now this slide and the next contain the specific information that must be contained on the preferred lender list. Institutions must disclose detailed information about the terms and the conditions of the loan, disclose why it entered into an arrangement with each lender, disclose that the students do not have to borrow from the lenders on the list, ensure that the list contains at least three unaffiliated lenders for Title IV loans, and ensure that the list contains at least two unaffiliated lenders for private education loans.

The last bullet is the most significant change to current regulations. As we have previously only had requirements that applied to our Title IV loan programs. This new PPA requirement adds disclosures and information about private information education loans to the mix and requires that there must be at least two unaffiliated lenders on any list of private education loan lenders. *(Next Slide)*

In the use of the list, the school must also prominently disclose the method and criteria used in selecting lenders, compile the list with care and without prejudice for the sole benefit of the students and their families, and not deny or impede the borrowers choice of a lender, or delay certifying a loan for a borrower who chooses a lender not on the list.

The new element here is the second bullet. The vast majority of institutions have always kept this as their primary purpose in any preferred lender arrangements. But the HEOA now mandates that the purpose of a preferred lender arrangement be for the benefit of the students and their families, not the institution. *(Next Slide)*

Remember that schools are not required to have a preferred lender list. There may be reasons however, that schools want to provide a list to potential borrowers that is not a preferred lender list.

A school that has been unable to identify at least three lenders that will make loans to a student or parents sufficient to meet the requirements of a preferred lender list, may provide the names of the lenders that have indicated they would provide FFEL loans to the school's students and their parents.

In providing this information, the school must make it clear that it is not endorsing the lenders and that the borrower can choose to use any other FFEL lender that will make loans to the borrower for attendance at that institution.

Similarly a school that wants to provide basic information to the school's students and their parents, may provide a comprehensive list of lenders that have made loans to the school's students or parents in the last few years and have indicated they will continue to make such loans.

The school may provide lender contact information, but may not provide any additional information about the lender. For example, information such as the percentage of the school's loans made by the lender or benefits offered by a particular lender may not be included.

The law and regulations require that the school must provide a clear statement that a borrower can choose any FFEL lender. You can get more detail about alternatives in our Dear Colleague Letter GEN-08-06 that was published May 9, 2008.

Preferred lender lists were topic included in our recent negotiated rulemaking discussions. We'll see those regulations this summer with final regulations by November 1, 2009. *(Next Slide)*

Another new element required in the Program Participation Agreement applies only to private education loans. As mentioned earlier, private education loans were never a part of the HEA or regulations to support the HEA.

Congress chose to add these requirements to give the Secretary some authority over the information provided by schools and private education loan lenders to better inform students and their families about the impact of private education loans on current federal financial aid as well as the terms and conditions of the loan.

The law states that the Federal Reserve Board must issue regulations around these disclosures with an effective date no later than February 14, 2010. A Federal Register with proposed rules regarding truth in lending was issued by the Federal Reserve Board on March 24, 2009.

The law also requires that the Federal Reserve Board issue a model form by August 14, 2010. This form would be used at the option of the lender to provide the required information.

Upon student request, institutions must provide this form, or one developed by the private education lender, and complete information relevant to the student's financial aid eligibility. This includes things like the availability of other federal student aid programs, the fact that a private education loan may impact a student's eligibility for other student financial aid, as well as the student's costs of attendance, EFC, and estimated financial assistance. *(Next Slide)*

Also included in requirements under the Truth In Lending Act, shown on this slide as TILA, are the same types of prohibitions that are in place for FFEL lenders. Private education lenders are prohibited from offering gifts or other benefits in exchange for lending considerations by the institution or inclusion on a preferred lender list.

The private education lenders may not engage in co-branding or use of a school name, logo, emblem or mascot that would imply endorsement by the educational institution. And a prohibition to the offering of compensation to employees in a financial aid office who serve on an advisory board beyond the reimbursement of reasonable expenses.

Again, these provisions will be reflected in regulations issued by the Federal Reserve Board who has oversight responsibilities for any lenders offering consumer or private education loans. *(Next Slide)*

Schools participating in the Direct Loan Program are now required to provide the same disclosures that FFEL lenders must provide student borrowers. Although this was effective with the date of enactment, this provision is subject to regulation.

The Department is currently advising Direct Loan participating institutions to take no action until we have regulations. It is anticipated that the disclosures will be wrapped into current processes such as the DL web site for entrance counseling, as well as disclosures sent to borrowers prior to disbursement. *(Next Slide)*

All three Title IV loan programs have entrance-counseling requirements. Reauthorization made no changes to those in the Perkins loan program.

In the FFEL and Direct Loan program, entrance counseling applies only to first time borrowers. Regulations have been in place for some time detailing the type of information required to be included in the entrance counseling.

The HEOA created a statutory requirement for entrance counseling for FFEL and Direct Loans and expanded the entrance counseling requirements that are already in regulation.

The HEOA also encourages the use of interactive programs to test the borrowers understanding of the terms and conditions of the loan. And the new items that must be included are listed on the next two slides.

So on this slide and the next, *(Slides 19 & 20)* we have listed the items that must be included that are not in current regulation. Because this provision was effective August 14, 2008, schools do need to make sure that this additional information is included when providing entrance counseling to first time borrowers.

So the new information includes, to the extent practicable, what the effect of accepting the loan will have on the borrower’s eligibility for other forms of student aid, information on how interest accrues and is capitalized during periods when the interest is not paid by the borrower or the Secretary. For unsubsidized loans or PLUS loans, the option that the borrower pay the interest while in school, and the definition of half time enrollment at the institution during regular time and summer school, and the consequences of not maintaining half-time enrollment.

And we have the last three items added to entrance counseling requirements. *(Slide 21)* An explanation of the importance of contacting the appropriate offices at the school if the borrower withdraws prior to completing the program of study. So the school can provide exit counseling, information on the National Student Loan data System, NSLDS, and how that borrower can access their records and the name and contact information of an individual a borrower can contact with questions regarding the borrower's rights and responsibilities for the terms and conditions of the loans. *(Next Slide)*

The HEOA also modified the items required to be provided in FFEL and Direct Loan exit counseling to student borrowers. Consolidation and Parent PLUS loans are excluded from these requirements. Note that there has been no changes to the exit counseling requirements for Perkins loans. *(Next Slide)*

On this slide, we have listed in general terms the new items that must be included in exit counseling. They are options that the borrower has to prepay each loan or pay each loan on a compressed schedule or to change repayment plans.

Information on loan forgiveness and cancellation provisions and the conditions under which the borrower may obtain full or partial forgiveness or cancellation of principle and interest; information with respect to consolidation loans to discharge FFEL, Direct Loan, and Perkins loan program loans, which includes the effects of the consolidation on total interest to be paid, fees and length of repayment; the effect on a borrower's underlying loan benefits which includes grace periods; loan forgiveness; cancellation and deferment; the option the borrower has to prepay the loan or to change repayment plans; and that the borrower benefit programs may vary depending on the lender.

And the last item is a general description of the types of tax benefits that might be available to borrowers. As with the entrance counseling requirements we mentioned a short time ago, it is important that schools make sure that this information is in any exit counseling material being provided to students. This provision was also effective August 14, 2008.

Entrance and exit counseling requirements were included in our recent negotiated rule making discussions. Proposed regulations will be issued this summer and final regulations by November 1, 2009. Until the regulations are issued, schools are required to make a reasonable effort to comply with these provisions. *(Next Slide)*

The HEOA may change two sections of the Higher Education Act and these changes remove all federal veterans' educational benefits from estimated financial assistance, effective July 1, 2010. Veterans' educational benefits will not be included as estimated financial assistance when determining eligibility for any Title IV aid program.

Because the effective date is July 1, 2010, it will apply to all packaging done for the 2010-11-award year. The 2010-11 FAFSA will not ask about a student's receipt of veterans' educational benefits.

Please not that the Financial Aid Administrators will not have the professional judgment authority to add the V.A. benefits into the estimated financial assistance. This is because the law specifically excludes them.

A Technical Amendments Bill, H.R. 1777, was recently passed by the House that could move this effective date up to July 1, 2009. However as of today, the Senate has not passed the same proposal. We cannot predict whether or not this will happen.

Until such time that the Technical Amendments package is sent to the President and becomes law, the date of this provision is July 1, 2010. I'd like to turn this back to Jamie at this point. *(Next Slide)*

Jamie Malone: Thank you, Linda. The current two-year cohort default rate has been expanded to a three-year cohort default rate. The Department will begin calculating a three-year rate with the fiscal year 2009 rate, but the HEOA included a transition period during which no sanctions will be taken based on the three-year rate, until after there has been three consecutive three-year cohorts calculated. The rates issued for fiscal year 2011 will be the first year that that will have occurred. *(Next Slide)*

This slide demonstrates how the two-year versus the three-year cohort impacts the default rate. The denominator is the number of borrowers who enter repayment in a fiscal year.

The numerator is the number of those borrowers who default. The figure in the green box on the chart for the two-year rate, shows that 5000 borrowers entered repayment in the 2009 fiscal year, October 1, 2008 to September 30, 2009.

The figures in the blue boxes show that of those 5000 borrowers, 125 defaulted by the end of fiscal year 2009, and 230 defaulted by the end of fiscal year 2010. That is a total of 355 defaulted borrowers during that two-year cohort period.

This results in a cohort default rate of 7.1%. This fiscal year 2009, two-year rates will be released in September 2011.

The three-year rate is illustrated just below. This shows the same 5000 borrowers who entered repayment in the 2009 fiscal year. With the new three-year rate, the number of borrowers who default is based on the total who default by the end of the 2011 fiscal year.

That is the 125 who defaulted in the 2009 fiscal year, the 230 that defaulted in the 2010 fiscal year, plus an additional 250 who defaulted by the end of the 2011 fiscal year.

The cohort rate for this calculation has increased from the 7.1 two-year rate to a 12.1% three-year rate. This fiscal year '09 fiscal three-year rate will be released in September 2012. *(Next Slide)*

As mentioned, any sanctions based on the new three-year institutional cohort default rate will be effective for the fiscal year 2011 rate. The 2011 rate is based on the cohort monitored through 2013 and released in September 2014. At that time, the default rate threshold will increase from the current 25% to 30%. This increase acknowledges the fact that adding another year to the count of students who default will most certainly result in an increase in the institutional cohort default rate. You saw this on the previous slide.

With the release of that fiscal year 2011 cohort default rate, a school that equals or exceeds the new 30% threshold will not automatically lose eligibility to participate in the federal student aid programs. *(Next Slide)*

The statute that requires that the sanctions based on a three-year rate be applied to any school that exceeds the threshold for three consecutive years. Until there are three full three-year rates, the HEOA can change the provision to continue to monitor and apply sanctions and disbursement waivers based on the current two-year rate.

This chart demonstrates the relationship between the fiscal year cohort calculation and the sanctions. As you can see, the two-year calculation will continue to apply through the period covered by the publication of the 2011 two-year rate in September 2013. *(Next Slide)*

Here you can see the application of the three-year rate and how the sanctions apply. The first time we will see sanctions based on the three-year rate is with the publication of the 2011 three-year rate in September 2014. At that time, any sanctions imposed will apply only if all three of the most recently published three-year cohort rates is 30% or higher. *(Next Slide)*

If the cohort default rate equals or exceeds the 30% threshold for the first time, school must develop a default prevention task force to prepare a default prevention plan. That plan must be submitted to the Department and must identify the factors causing the institution's cohort default rate to exceed the threshold, establish measurable objectives, and identify the steps to take to improve the institution's rate and specify actions that the institution will take to improve student loan repayment, including loan repayment counseling.

The Department is required to review the plan and provide technical assistance to the institution to promote improved student loan repayment by the school's borrowers.

If the institution exceeds the default rate threshold for two consecutive years, additional action is required. The institutions default plan task force must review and revise it's default prevention plan and submit that new plan to the Department. Again, the Department is required to review that plan and may require the school to take additional steps to promote student loan payment. *(Next Slide)*

One additional change related to institutions that exceed the cohort default rate threshold, applies to schools that appeal their rates based on mitigating circumstances. Effective August 14, 2008, an institution that successfully appeals the rates based on extenuating mitigating circumstances, after two consecutive years of cohort default rates that exceed the threshold, may not be placed in a provisional certification status based solely on the institution's cohort default rate. *(Next Slide)*

This slide breaks down the sanctions based on the three-year rate. Remember that the first time we will have three full three-year rates is the 2011 cohort rate, published in September 2014. Beginning with the publication of that 2011 cohort rate, a school that exceeds the 30% rate for the first time will be required to a develop a default prevention plan and taskforce and submit that plan to the Department for review.

A school that exceeds the 30% threshold for any two consecutive cohort years, will be required to review and revise their default prevention plan and submit that plan to the Department for review. The Department may require additional steps to promote student loan repayment.

And, if the default rate equals or exceeds 30% for all three of the most recently published three-year rates, the institutions will lose eligibility for Pell, ACG, Smart, FFEL, and Direct Loans. Schools may, however, still submit an appeal of this action based on exceptional mitigating circumstances. *(Next Slide)*

One final change relevant to the institutional cohort default rate. With the use of the new three-year rate, the cohort default rate threshold for the disbursement waivers will increase from the current 10% to 15%.

A school with a three-year cohort rate for the three most recent fiscal years available, of less than 15% may take advantage of the disbursement waivers now permitted with a two-year cohort rate of less than 10%.

That means that they may disburse a single term loan in a single installment and they need not delay disbursement of the first disbursement of a loan to a first year undergraduate borrower who has not completed the first 30 days of his program of study.

Note that the increase from 10% to 15% for this release is effective for loans disbursed on or after October 1, 2011. We understand that on that date we would not have computed nor published the first fiscal year 2009 three-year cohort rate. That rate will not be available until September 11, 2012.

Therefore, we will provide additional guidance on the implementation of the new disbursement release triggers as we get closer to October 2011. *(Next Slide)*

Next we'll cover those provisions specific to FFEL and Direct Loan borrowers. *(Next Slide)*

Now we'll talk about PLUS loans. These next 5 slides apply to PLUS loans in both the FFEL and Direct Loan programs. Recent changes to the law, provided for exceptions to the adverse credit standard for parents or students to qualify for a PLUS loan. These are referred to as special extenuating circumstances.

In order to qualify with these extenuating circumstances, the borrower must have no delinquencies of more than 180 days on mortgage or medical bill payments and no other debt payment more than 89 days delinquent.

The HEOA clarifies that the adverse credit standard that is applicable when determining whether or not an applicant qualifies under these special circumstances, is what existed in regulation on May 6, 2008.

Note that the effective date is for loans first disbursed on or after July 1, 2008, but there is a second qualifying date that applies. It only applies to extenuating circumstances that existed between January 1, 2007 and December 31, 2009. *(Next Slide)*

The law currently provides for a Parent PLUS deferment based on the in school and grace period status of the student borrower on whose behalf the parent borrowed. The language was changed in the HEOA to clarify the condition under which a Parent PLUS borrower could qualify for a deferment based on the dependent student's status. The parent can qualify based on the student's in-school status. That is for any period that the student is enrolled on at least half-time basis, and during the six-month period that corresponds to a student borrower's eligibility for a grace period.

This was effective for loans first disbursed on or after July 1, 2008. *(Next Slide)*

The parent borrower must request a deferment in order for the lender to grant it. It may not be granted automatically by the lender based on the known student's status.

If a parent requests a deferment, the lender must provide information related to the interest accrual during the deferment period. As you know, PLUS loans are not subsidized. Therefore interest accruals during periods of deferment can have a significant impact on the borrower's total repayment. The lender must also provide the parent borrower the opportunity to pay the interest as it is accrued or to decline the deferment completely. And now I'll turn it back over to Linda to finish up for us. *(Next Slide)*

Linda Burkhardt: Thanks, Jamie. The HEOA added corresponding changes to the graduate professional PLUS loan borrowers. Again, this clarifies deferment eligibility currently provided for in the law.

Remember that Grad PLUS borrowers are eligible for deferment based on their in-school status. Nothing in the law changed hat. The Grad PLUS borrower is eligible for deferment during that six-month period following the date the borrower ceased to be enrolled on at least a half-time basis that corresponds to a six-month grade period applicable to a student's Stafford loan.

For all practical purposes, it is the same as a grace period on an unsubsidized Stafford loan. Interest continues to accrue during this period, but the borrower's not required to make payments until the six-month deferment period is over.

Unlike the Parent PLUS loans, however, the student need not request this deferment. The lender may grant the deferment based on the borrower's known status for the period.

The lender must notify the student PLUS borrower of the deferment and provide the student the opportunity to pay the interest as it accrues or to decline the deferment completely. This was also effective for loans first disbursed on or after July 1, 2008. *(Next Slide)*

Further clarification of language from ECASLA applies to interest accrual and capitalization. This applies to both Parent and Grad PLUS borrowers.

Repayment on PLUS loans begins no later than 60 days after the last disbursement of a loan. Even with the use of a MPN, individual loans and repayment periods are still tied to individual loans as certified by the school and disbursed by the lender.

As we saw on the previous slides, these loans may qualify for deferment, but because these loans are not interest subsidized, interest does accrue to the borrower from the date of each disbursement. Accrued interest deferment periods may be paid monthly or quarterly or may be capitalized on a quarterly basis. Capitalization of loan interest can significantly impact the total paid on any type of loan debt, so it's important that student and parent borrowers understand this concept. This was effective for loans first disbursed on or after July 1, 2008. *(Next Slide)*

The HEOA added language that specifies that the provisions of the Service Members Civil Relief Act, with regard to the interest rate reduction applies to FFEL.

This same provision will be applied to a borrowers Direct Loan as well. This provision applies to borrowers who are in military service as of August 14, 2008 or enter military service after that date and only on those FFEL or Direct Loans first disbursed on or after July 1, 2008.

The interest rate cap on loans that meet this qualification will be 6%. Interest rate on current loans disbursed on or after July 1, 2008 range from 6% to 8.5%. For any qualifying borrower, this may mean a reduction of up to 2.5% for that eligible period. *(Next Slide)*

The HEOA also states that borrowers who meet the criteria for this interest rate reduction may not receive a refund of interest paid above the 6% rate prior to August 14, 2008. Parent PLUS borrowers are also eligible if they meet the conditions, but this does not apply to an endorser of a PLUS loan unless that endorser also meets the criteria. *(Next Slide)*

The HEOA provides for an interest waiver for certain Direct Loan borrowers performing military duty. This means that interest will not accrue on that Direct Loan when the borrower meets the criteria.

To be eligible, the borrower must be serving on active duty during a war or other military operation or national emergency and serving in an area of hostility in which service qualifies for special pay under Department of Defense law. This benefit is for a period not to exceed 60 months.

The law does not include FFEL borrowers as eligible for this benefit, but does provide for FFEL borrowers to consolidate those loans in a Direct Loan to take advantage of this provision, as we'll see on the next slide. This provision is effective for Direct Loans first disbursed on or after October 1, 2008. *(Next Slide)*

As we just mentioned the law does contain a provision that permits FFEL borrowers to consolidate their FFEL loans into a Direct Consolidation Loan in order to qualify for this benefit.

This benefit applies only to eligible military borrowers whose service includes August 14, 2008 or whose service begins after that date. And it is further limited based on when the loan was disbursed. It applies to a Direct Loan first disbursed on or after October 1, 2008, and any portion of a Direct Consolidation Loan that repaid an FFEL or Direct Loan first disbursed on or after October 1, 2008.

For example, let's say a Direct Consolidation Loan is made on July 1, 2010. That consolidation loan contains three underlying loans. One of the underlying loans is a Direct Loan first disbursed September 2007. Another is a Direct Loan disbursed October 2008. The third loan is an FFEL loan disbursed September 2009. Both the Direct Loan disbursed in 2008 and the FFEL disbursed in 2009 qualify for the interest waiver. The Direct Loan disbursed in 2007, does not qualify.

If a borrower who is eligible for this benefit is also eligible for a military service deferment, the deferment and the 60-month period of no interest accrual runs concurrently. *(Next Slide)*

The income-based repayment plan was legislated in the CCRAA with an implementation date of July 1, 2009. Minor changes were made to the language in the HEOA, which does not affect the implementation of the program for the October 23, 2008 regulations.

The HEOA did clarify that a FFEL borrower who is in default on a loan held on a guarantee agency cannot repay that loan under the income-based repayment provisions. However, the Secretary is permitted to require a borrower to repay a defaulted FFEL loan on an income-based repayment plan for a loan that has been assigned to the department. This same treatment will be offered to Direct Loan borrowers who are in default. *(Next Slide)*

The HEOA amended the rehabilitation section of the law to state that a borrower may only receive the rehabilitation benefits one time per loan. This change was effective for any loans rehabilitated on or after August 14, 2008.

The law does not however, restrict a borrower to only one rehabilitation as it is tied to the loan, not the borrower. A borrower who defaults, then rehabilitates may receive the rehabilitation benefits for any other loans that was not part of another rehabilitation. *(Next Slide)*

The total and permanent disability discharge provisions were modified to strengthen the terms under which a discharge is granted. Previous terms were provided in regulation. Language is now in the law that specifically states the conditions of the disability.

It now states that the loan may be discharged if the borrower is unable to engage in any substantial gainful activity by reason of any medically determined physical or mental impairment that can be expected to result in death, or has lasted for a continuous period of not less than 60 months, or is expected to last for a continuous period of not less than 60 months. The effective date in the law is July 1, 2010. We expect that regulations will clarify that it applies to those discharge requests on or after July 1, 2010. *(Next Slide)*

What this also did was remove the conditional discharge period. At the same time, it also gives the Secretary the authority to develop regulations to safeguard against fraud and abuse in this area. This may include a resumption of collection activities on the discharged loan if, after the discharge, the borrower receives another Title IV loan, earns income in excess of the poverty line, or any other reason the department determines necessary.

We expect that the Secretary will retain a period during which earnings and new Title IV loans will be monitored and reinstate the loan if certain conditions are met. The upcoming regulations will most likely address this.

In effect, the loan will be discharged upon submission of the eligible discharge request. Resumption of collection activity will only occur if the conditions established in regulation are met. This is subject to regulation which will be necessary to implement by the July 1, 2010 effective date. *(Next Slide)*

The HEOA also amended the total and permanent disability discharge provision to state that a determination from the Department of Veteran's Affairs of a borrowers service related disability that has resulted in a borrower being determined unemployable is all the documentation that borrower is required to provide to receive the discharge benefit.

Unlike the changes mentioned on the previous slides, discharges that meet this condition will not be subject to any monitoring for earnings or new loans. They will be completely discharged without medical documentation.

We are currently working with the Department of Veteran's Affairs to clarify that the type of documentation that can be expected to make this determination. This provision is effective for any disability discharge request that is made on or after August 14, 2008. *(Next Slide)*

The existing teacher loan forgiveness program has been amended to include a borrower who has provided qualified teaching services at one or more locations that are operated by an educational service agency and are not a school. An example could be an individual who works for a school district that provides for teaching children of migrant workers outside of the school.

Although this provision is effective for teacher loan forgiveness applications received on or after August 14, 2008, the eligibility of these educational service agencies must be determined by the Secretary in consultation with the State and no benefit may be provided until the process takes place. *(Next Slide)*

The HEOA adds some clarifications to the definition of public service jobs for purposes of the Direct Loan public service job loan forgiveness. This is a forgiveness program for Direct Loan borrowers who work full-time in a public service job, while making 120 separate monthly payments after October 1, 2007.

The law clarified the definition of a job in government to exclude time served as a member of the US Congress. The law further adds additional job titles to the list of public health jobs. These are nurses, nurse practitioners, nurses in a clinical setting and full-time professionals engaged in health care practitioner occupations and health support occupations.

And lastly, the law clarifies language in the definition of a job in public interest law services. The department is working to establish an application process for this loan forgiveness program. Remember, that because this program requires 10 years of repayments, made on or after October 1, 2007, the earliest anyone could possibly qualify is October 1, 2017. *(Next Slide)*

Now for reference purposes, this slide gives you a link to the Web site for the HEOA and also gives you the Dear Colleague letter that we published about reauthorization.

And this ends our presentation for today. And we want to take this opportunity to thank you for attending our Webinar.

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